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SUBJECT: Review of the Consultative Group meeting in Honduras, June 10-11, 2004

SUMMARY

1. Summary: The Honduran Consultative Group (CG) meeting was held on June 10-11 with more than 300 participants from the GOH, civil society, and the international donor community. President Maduro made a key-note presentation on the importance of this meeting to report on the progress made on achieving the Poverty Reduction Strategy (PRS) goals and the actions left to be taken. His presentation was followed by a number of presentations by Cabinet Ministers, the President of Congress, the President of the Supreme Court, and representatives of the Honduran civil society and members of the international donor community. Primary themes in these presentations included the importance of achieving the goals of the PRS, strengthening transparency and anti-corruption programs, decentralizing PRS implementation to include municipalities and civil society, and insuring equal rights for women and minority ethnic groups.

2. The principal results of this meeting were the announcement by the IDB President of the CG Meeting, Miguel Martinez, that the donors pledged \$1.8 billion over the next three years in support of the Honduran PRS, and that the Government of Honduras (GOH), civil society, and the international donors would continue to work together to achieve the PRS goals as expressed in the Declaration of Tegucigalpa and the Follow-up Actions to be taken during the coming year.

Overview of the Consultative Group Meeting

3. The Honduran Consultative Group (CG) meeting was held on June 10-11 with more than 300 participants from the GOH, civil society, and the international donor community. The U.S. Government delegation was co-chaired by Ambassador Palmer and USAID Country Director Paul Tuebner, and also included EconCouns Robin Matthewman, U.S. Treasury/W Officer Ethan Ilzetzki, USAID Chief Economist Duty Greene, USAID/W Desk Officer for Honduras Laura Libanati, and visiting Millennium Challenge Corporation (MCC) representatives John Hewko, John Wingle, and Katharine Uhre.

4. The meeting was opened with a welcoming presentation by Miguel Pastor, mayor of Tegucigalpa and a leading presidential candidate for the 2005 elections. This presentation was followed by those of Miguel Martinez (IDB Manager of the Regional Operations Department for Mexico, Central American Isthmus, Haiti, and the Dominican Republic) and President Ricardo Maduro. President Maduro spoke on the importance of this CG meeting to report on the progress being made by his government to achieve the goals of the national Poverty Reduction Strategy (PRS) and the work that lies ahead. After the President's presentation, GOH Ministers Luis Cosenza (Presidency), Arturo Alvarado (Finance), Vicente Williams (First Vice-President and Coordinator of the National Competitiveness Program and the Plan Puebla Panama), and Thierry Pierrefeu (Tourism) spoke on the government's national transformation program to reduce poverty. They were followed by Porfirio Lobo (President of the National Congress) and Vilma Morales (President of the Supreme Court) who discussed the role of Congress and the judicial system, respectively, in achieving the transformation of Honduras.

5. After lunch, representatives of the G-15 and civil society spoke on the roles that the G-15, civil society, and the National Anti-corruption Council have played and should play in this transformation process to reduce poverty. These speeches were followed by a series of brief opening interventions from the participating representatives from the international donor community. They focused primarily on the need to continue with the implementation of the PRGF program, decentralization, transparency, and broad-based economic growth. The first day ended with a reception for

all the CG participants in the Presidential Palace hosted by President Maduro, the First Lady, and the Government.

16. The second day of the CG meeting focused on the coordination and harmonization of international cooperation to support the priorities of the gGovernment, and the national capacity of host country institutions to implement the Poverty Reduction Strategy (PRS). Addressing these issues were Rocio Tabora (Vice-Minister of the Presidency), Jorge Hernandez Alcerro (Minister of Internal Affairs), and Arturo Alvarado. The Ministers for Education, Agriculture and Forestry, Health, and Water and Sanitation spoke on the work on sector-wide approach programs (SWAPs) that their respective Ministries have been developing. During lunch, President Maduro participated in a signing ceremony with a donors' group willing to pool their funds in an Education SWAP. (USAID is supporting this program separately by financing activities that contribute directly to the EFA-Fast Track Initiative goals.)

17. After lunch, representatives from various civil society groups gave statements on their roles in supporting the PRS and their skepticism of government programs (especially decentralization, transformation, and food security) to reduce poverty effectively. This session was followed by the closing statements of the international donor representatives, including that of Ambassador Palmer who focused on the importance of implementing the PRSP and strengthening the government's efforts in justice, education, health, and economic growth with equity. These statements were followed by the passing of the Presidency Pro-tempore of the G-15 from the Government of Spain to the Government of Sweden, the announcement that the donors' G-15 will become the G-17 with the addition of France and Switzerland, and the closing remarks of Luis Cosenza and Miguel Martinez.

18. Minister Cosenza focused on the government's plan to implement the PRS and stressed the six pillars of the PRS: economic growth with equity, poverty reduction in rural areas, poverty reduction in urban areas, human capital formation, strengthening protection to specific groups living in poverty, and the programs needed for the sustainability of the strategy. He encouraged the donor community to provide direct budget support to the Government whenever possible, and provide SWAP funding to the government's six priority program areas of education, health, agro-forestry, water and sanitation, justice and personal security, and economic infrastructure.

19. In his closing remarks, Mr. Martinez congratulated the Government of Honduras on the progress that it has made in implementing the PRS and reiterated the importance of continuing with the PRGF program, giving greater transparency in government procurement procedures, organizing donor cooperation in priority areas, and implementing the PRS in a cost-effective participatory manner. He also read the Declaration of Tegucigalpa that was drafted by the Government, civil society, and the donors.

The Tri-partite Declaration of Tegucigalpa

10. The tri-partite Declaration of Tegucigalpa reaffirmed the commitment of the GOH, civil society, and the donor community to the following:

- a) To support the transformation of the country, the consolidation of democracy, sustainable development, and poverty reduction;
- b) To strengthen their alliance in the future to achieve poverty reduction through accelerated and sustained economic growth with equity, with transparency in the management of resources, and broad citizen participation and gender equality in national and local decisions;
- c) To support the Stockholm Principles that call for the protection of social and environmental protection in Honduras, as well as better governance, decentralization, transparency, respect for human rights, foreign debt reduction, and the harmonization of international cooperation according to national priorities;
- d) To support the agreements made in the National Agreement of Transformation for Human Development in the Twenty-First Century;
- e) To support the PRS that constitutes the general plan that will guide the development policy of the country in the future and that is consistent with the Millennium Development Objectives and Goals. This strategy will be implemented with a programmatic vision based on the harmonization of national efforts, complemented by

international assistance.

11. The Declaration goes on to say that the GOH is the leader and facilitator of the transformation process of the country, with broad and effective participation of civil society. Therefore, it is important that the government:

- a) Continue strengthening the rule of law, combating corruption, and defending human rights;
- b) Strengthen the processes of transparency and accountability, the participative social auditing of the PRS implementation, and faithfully comply with the Law of State Contracting and related norms, the recommendations of the Program for the Efficiency and Transparency in State Purchases and Contracts, and the National Anti-Corruption Council, and the technical capacity and independence of the Superior Accounting Tribunal;
- c) Continue preparing and implementing the Central Government's budget for multiple years, based on regional needs, and with medium-term expenditure goals to reflect effectively the PRS goals, providing details of the implementation of the PRS expenditures and the advances made to reach these goals, and initiate the same budgeting process for sector-wide approach programs (SWAPs);
- d) Agree to participative mechanisms to incorporate citizens' demands coming from territories and priority sectors identified in the PRS and in the multi-year budget, starting this process with the 2005 budget;
- e) Achieve greater articulation of the PRS activities, programs, and projects, including the proposals of the different social sectors;
- f) Strengthen the implementation of policies to make the state efficient, modern, competitive, and agile, so that the administration is at the service of its citizens and focused on national development;
- g) Implement the Macroeconomic Program for 2004-2006 to reach in the first quarter of 2005 the HIPC completion point, and implement public policies that permit the development of a strategy that substantially improves productive infrastructure and generates wealth with greater equity;
- h) Strengthen municipal governments and local development through the decentralized management of the PRS with an integrated regional vision, taking into account municipal and regional realities with emphasis on the existing resources in the different regions and local and regional priorities;
- i) Advance in the implementation of a transparent and coherent policy with civil society that permits its strengthening and broad participation in the PRS implementation, complying with the commitments agreed to in the different international forums;
- j) Accelerate the efforts to achieve efficiency in the management of international cooperation, orienting their assistance to achieve the PRS goals.

12. The parties also consider that civil society should have a greater participation in the transformation of Honduras and support the democratic process and the consolidation of the Rule of Law. In this respect, it is important that civil society:

- a) Deepen and broaden its base and social communication in its institutions;
- b) Strengthen its technical capacity and political presentations, as well as its transparency and accountability processes;
- c) Participate actively and efficiently in the implementation and monitoring of the PRS to strengthen the ownership and sustainability of the activities.

13. The parties also agree that the international donors are a strategic ally of the GOH and civil society in the transformation process of the country. Therefore, it is important that the donors:

- a) Coordinate their activities in the framework of PRS implementation, giving priority to achieving the goals of poverty reduction and informing about the different support instruments used;
- b) Simplify and harmonize their procedures and administrative requirements to contribute more effectively and efficiently to achieving the PRS goals;

c) Harmonize their support, basing it on sector strategies, programs, and budgets that have been defined and given priority in the PRS;

d) Support the GOH to advance substantially in effective compliance with the Poverty Reduction and Growth Facility (PRGF) Agreement with the IMF and the PRS implementation;

e) Contribute to strengthening the national capacity required by the GOH and civil society to overcome the challenges stated above.

14. Also, the parties agreed to reaffirm:

a) Their interest in strengthening the work of the PRS Consultative Council to allocate and monitor the PRS funds;

b) Their conviction that in order to achieve the common good it is necessary to favor the interest of the nation over those of individual interest groups and partisan politics;

c) Their commitment to strengthen the constructive and transparent dialogue without prejudicing differences in opinion that could exist in confronting the challenges of the country. They reiterate that the objectives and goals of the transformation should be independent of changes in the government so as to guarantee the sustainability of the reforms and the medium and long-term policies;

d) The importance of the work of the Follow-up Group, today known as the G-17, as a monitoring mechanism of the donor community in the transformation process of Honduras. Likewise, they agree to continue developing and strengthening the tri-partite mechanisms that allow them to give continuity to the agreements reached in this Consultative Group Meeting, which will constitute an invaluable guide to reduce poverty and transform Honduras.

15. Martinez also announced that the donor community had pledged a total of \$1.8 billion to support the Poverty Reduction Strategy of Honduras over the next three years, with approximately \$810 million coming in the form of donations and the remaining billion coming in the form of loans. This pledged amount has yet to be confirmed and has not been broken down by donor or by sector. In his closing remarks, Ambassador Palmer stated that the U.S. Government is committed to continue its support to Honduras for poverty reduction with USAID planning to give a total of \$235 million over the next five years and other U.S. Government agencies, such as the Department of State, Department of Agriculture, Department of Labor, Peace Corps, and possibly the Millennium Challenge Corporation, adding to that amount.

Follow-up Actions to the CG Meetings

16. In conclusion, Martinez also read the following principal follow-up actions to this CG meeting:

a) Consolidation of the Economic Program

Continue implementing the macroeconomic program and take all the necessary steps to be able to reach the completion point of the HIPC initiative.

b) PRS Implementation

Prepare before the end of September a proposed budget for the implementation of the PRS for the 2005-2006 period that is integrated into the multi-year budget and is consistent with the PRS implementation plan for 2004-2005. This plan would be presented to the PRS Consultative Council for future consideration by the Social Cabinet and its incorporation into the national budget

Prepare before the end of September a plan of concrete actions to consolidate and strengthen the advances in the implementation of the PRS monitoring system (SIERP), including the community social audits and the monitoring systems for the PRS expenditures (SIAFI) and the financing from external cooperation.

c) Legislative Agenda

- Reform of the Penal Code to Combat Financial Crimes
- Law of Financial Institutions
- Law of the Fund for Deposit Insurance
- Law of the Bank and Insurance Commission
- Organic Law of the National University
- Law of Public Servants
- Forestry Law
- Organic Law for the Judicial Power
- Law of the Judicial Council and of the Judicial Career
- New Civil Procedures Code
- Notary Code

d) Modernization of the Justice Sector

Implementation of the institutional reforms for the

modernization and systematization of the management models of justice that allow for the increase in the independence and efficiency of the judicial system. These include progress in the selection process of judicial personnel through opposition procedures with the participation of civil society, and substantial progress in the finalization of the processes initiated under the Penal Procedures Code that allows its conclusion in 2006.

e) Transparency and Accountability

Prepare before the end of September an action plan with steps to take before the end of 2005 that permits the continuation of increasing the transparency of managing public funds, especially in the area of State purchases and contracts, and to strengthen the control process and accountability.

f) Coordination of the International Cooperation

Achieve before the end of September agreement by consensus on the strategies with sector focus for education, health, potable water and sanitation, agro-forestry, and justice, and continue the actions to define the sector strategy for housing, all based on the working documents prepared for the current Consultative Group Meeting.

Prepare before the end of September an action plan with concrete steps to carry out through December 2005 a program to strengthen the coordination process for each sector table.

Achieve before the end of July a workshop to review the lessons learned about the functioning of the sector tables, as well as the relevant experiences in other countries of the region, and prepare before the end of August a proposal to improve the functioning of the sector tables, particularly in relation to the active participation of civil society.

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